

**REPORT OF THE AUDIT OF THE  
FORMER WOODFORD COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
October 13, 2006 Through November 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER WOODFORD COUNTY SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
October 13, 2006 Through November 30, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Woodford County Sheriff for the period October 13, 2006 through November 30, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$12,280,898 for the districts for 2006 taxes, retaining commissions of \$386,391 to operate the Sheriff's office. The former Sheriff distributed \$11,889,927 to the districts for 2006 taxes. Refunds of \$2,264 are due to the former Sheriff from the taxing districts.

#### **Report Comment:**

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT ..... 1

SHERIFF'S SETTLEMENT - 2006 TAXES ..... 3

NOTES TO FINANCIAL STATEMENT ..... 5

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS ..... 9

COMMENT AND RECOMMENDATION ..... 13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable John Coyle, Woodford County Judge/Executive and  
Former Woodford County Sheriff  
Members of the Woodford County Fiscal Court

Independent Auditor's Report

We have audited the former Woodford County Sheriff's Settlement - 2006 Taxes for the period October 13, 2006 through November 30, 2006. This tax settlement is the responsibility of the former Woodford County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Woodford County Sheriff's taxes charged, credited, and paid for the period October 13, 2006 through November 30, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2007, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable John Coyle, Woodford County Judge/Executive and  
Former Woodford County Sheriff  
Members of the Woodford County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 17, 2007

WOODFORD COUNTY  
JOHN COYLE, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period  
October 13, 2006 Through November 30, 2006

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,227,117	\$ 2,106,035	\$ 8,399,699	\$ 2,212,266
Tangible Personal Property	44,278	117,912	309,333	498,508
Increases Through Exonerations	68	118	465	125
Omitted Taxes	1	3	10	3
Franchise Tax Collections	3,489	4,667	24,212	
Special Water	1,729			
Bank Franchises	13,933			
Adjusted to Sheriff's Receipt	8	261	3	2
Gross Chargeable to Sheriff	<u>1,290,623</u>	<u>2,228,996</u>	<u>8,733,722</u>	<u>2,710,904</u>
<u>Credits</u>				
Exonerations	1,357	2,535	9,319	3,320
Discounts	20,830	36,644	142,547	45,404
Sheriff's Receipt for Unpaid Tax Bills	212,092	359,275	1,451,008	399,016
Total Credits	<u>234,279</u>	<u>398,454</u>	<u>1,602,874</u>	<u>447,740</u>
Taxes Collected	1,056,344	1,830,542	7,130,848	2,263,164
Less: Commissions *	45,182	66,466	178,271	96,472
Taxes Due	1,011,162	1,764,076	6,952,577	2,166,692
Taxes Paid	1,010,598	1,764,730	6,948,647	2,165,952
Refunds (Current and Prior Year)	606	995	4,133	1,110
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (42)</u>	<u>\$ (1,649)</u>	<u>\$ (203)</u>	<u>\$ (370)</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

WOODFORD COUNTY  
 JOHN COYLE, FORMER SHERIFF  
 SHERIFF'S SETTLEMENT - 2006 TAXES  
 For The Period October 13, 2006 Through November 30, 2006  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	4,791,366
2.5% on	\$	7,130,848
1% on	\$	348,684

\*\* Special Taxing Districts:

Library District	\$	(25)
Health District		(724)
Extension District		(788)
Watershed District		<u>(112)</u>
(Refunds Due Sheriff)	\$	<u><u>(1,649)</u></u>

WOODFORD COUNTY  
NOTES TO FINANCIAL STATEMENT

November 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WOODFORD COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of November 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2006 through November 30, 2006.

Note 4. Interest Income

The former Woodford County Sheriff earned \$14,021 as interest income on 2006 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 30, 2006, the school owed the Sheriff \$382 in interest and the Sheriff owed \$302 in interest to his fee account.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Coyle, Woodford County Judge/Executive and  
Former Woodford County Sheriff  
Members of the Woodford County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Woodford County Sheriff's Settlement - 2006 Taxes for the period October 13, 2006 through November 30, 2006, and have issued our report thereon dated May 17, 2007. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Woodford County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Woodford County Sheriff's Settlement - 2006 Taxes for the period October 13, 2006 through November 30, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Woodford County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 17, 2007

COMMENT AND RECOMMENDATION



WOODFORD COUNTY  
JOHN COYLE, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period  
October 13, 2006 through November 30, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small staff size, and budget constraints, the official has limited options for establishing an adequate segregation of duties. However, the former Sheriff could have implemented some of the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

- A deputy should be responsible for preparing the daily checkout sheet, counting cash and checks to be deposited for that day and for preparing the bank deposit slip. The deputy should initial the daily checkout sheet, the calculator tape documenting the total amount of cash and checks and the bank deposit slip. By initialing these documents, the deputy is verifying that all amounts are in agreement. If any variances are noted, they should be investigated and resolved immediately.
  - The former Sheriff should have then verified these amounts were correct by recounting all cash and checks and running a separate calculator tape for documentation purposes. The Sheriff should have initialed the daily checkout sheet, his calculated amount of cash and checks, and the bank deposit slip to show agreement.
  - The former Sheriff should have been responsible for taking deposit to the bank.
- A separate deputy should periodically compare the tax collection receipts journal to the daily checkout sheet and batched totals of tax bills collected. The deputy clerk should initial the daily checkout sheet to document the agreement of these amounts. This deputy should also compare the monthly tax reports to the amounts posted to the receipts and disbursements ledgers. This comparison should be documented by initialing the source monthly tax report and the receipts and disbursements ledgers. Any variances noted should be investigated immediately.
  - The former Sheriff should have overseen this procedure and should have performed periodic comparisons of the above. The former Sheriff could have documented this by initialing the daily checkout sheet, monthly reports, and the receipts and disbursements journal amounts.
- A separate deputy should prepare the monthly bank reconciliation. This deputy should receive the bank statement unopened. The bank balance per the bank statement should be reconciled to the former Sheriff's book balance. To show agreement the deputy should initial the monthly bank reconciliation and the former Sheriff's ledger showing the ending book balance. Any variances noted should be investigated and resolved immediately.
  - The former Sheriff should have overseen this procedure and should have performed periodic comparisons of the above. The former Sheriff could have documented this by initialing the monthly bank reconciliation and the former Sheriff's book balance.

WOODFORD COUNTY  
JOHN COYLE, FORMER SHERIFF  
COMMENT AND RECOMMENDATION  
For The Period October 13, 2006 through November 30, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:  
(CONTINUED)

The Former Sheriff's Office Lacked Adequate Segregation Of Duties (Continued)

Additional compensating controls:

- The former Sheriff could have performed surprise cash counts.
- Disbursement checks should be signed by two people, with one signature being the Sheriff's.
- The former Sheriff should have required the bank to provide the imaged front and back of all checks.

*Former Sheriff's Response: None.*

